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TREASURY FOR OASIA

E.O. 12958: N/A

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SUBJECT: Philippine Renewable Energy Act: Hope for Green Energy
Independence

11. (SBU) Summary: The Renewable Energy Act of 2008, signed into law on December 16, mandates policies and measures to accelerate the development and utilization of renewable energy in the Philippines through incentives for investors yet allows end-users to choose their source of energy. The bill seeks to reduce Philippine dependence on imported fuel and encourage alternative energy resources. The USG played a key role in helping to develop the legislation. End Summary.

Provisions of the Act

12. (U) The Act requires energy distributors to purchase a minimum percentage of their annual energy supply from renewable sources, which will be determined by the new National Renewable Energy Board. It provides for a feed-in-tariff mechanism that sets a fixed price for electricity from renewable sources for 12 years. Eventually, allows consumers to choose to use renewable energy from sources such as hydro, wind, solar, and biomass including biofuels over crude and other petroleum products.

13. (U) Financial incentives include a seven-year income tax holiday and a fixed five percent gross income tax thereafter; duty-free importation for renewable energy equipment and materials; tax credits on domestically produced capital equipment and services; cash incentives to investors to provide clean energy to off-grid communities; and tax exemption of carbon credits. Under the bill, the government is entitled to one percent of the gross income of renewable energy developers on sale of renewable energy produced, in lieu of income tax.

Industry Impact

14. (U) The Philippines is the second largest geothermal power producer in the world, has the highest wind power potential in Southeast Asia, high solar penetration, and abundant hydropower and biomass resources. The country's existing renewable energy capacity was 5,500 megawatts at the end of 2007. The Philippine Energy Plan projects that an additional 5,400 megawatts of capacity will be needed for the period of 2009-2012. Last year, the country imported 101.4 million barrels of oil for \$7.5 billion. The country's Renewable Energy Coalition estimated that renewable energy sources could eventually reduce the country's oil imports by half.

Renewable Energy Projects Planned

¶5. (U) A total of 2,500 megawatts of renewable energy projects are planned, according to the Philippine Department of Energy. Industry players estimate about \$850 million of renewable energy projects were held for the final passage of the bill, including: 220 megawatts of geothermal projects, 120 megawatts of wind power projects, and 10 megawatts of solar energy projects.

USG Support

¶6. (SBU) The USG supported development of the renewable energy legislation over the past six years through the Renewable Energy Coalition. USAID provided technical assistance to the Philippine Department of Energy in policy, capacity building, and advocacy activities. In 2005, USAID and the U.S. Department of Energy supported a U.S. renewable energy study tour for key Philippine legislators and officials, which included visits to renewable energy facilities in California and meetings with California officials. USG support continues through assistance in development of implementing rules and regulations.

Comment

¶7. (U) The Philippine Renewable Energy Act of 2008 should foster innovation, save foreign exchange costs, reduce the country's dependence on imported oil, and complement the Biofuels Act of 2006 in encouraging clean energy development. However, renewable energy projects tend to be capital intensive and with current tight

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international and domestic capital markets, investors may have a difficult time bankrolling projects over the short to medium term.

KENNEY